

**Education Network of Tennessee  
Projected Cash Flow**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>		
<i>Sources of Cash</i>					
Fee income	<u>\$23,487,900</u>	<u>\$23,487,900</u>	<u>\$23,487,900</u>		
fee per school*	13,049				
Total sources of cash	23,500,949	23,500,949	23,487,900		
<i>Expenditures</i>					
Operating costs	9,375,333	9,375,333	9,375,333		
Administration	2,277,500	2,155,500	2,155,500		
Network upgrades	9,750,000	5,416,667	1,083,333		
Network purchase	3,841,319	4,157,966	4,500,715		
Interest expense	<u>886,661</u>	<u>570,014</u>	<u>227,265</u>		
Total expenditures	26,130,813	21,675,480	17,342,147		
Net cash flow before income taxes	(2,629,865)	1,825,469	6,145,753		
Federal and state income taxes	<u>-</u>	<u>-</u>	<u>2,029,716</u>		
Net cash flow	<u>\$ (2,629,865)</u>	<u>\$ 1,825,469</u>	<u>\$ 4,116,037</u>		
Concept model for other contracts....below....no small subcontracts listed /no revenue adds to base contracts					
Economy of scale 120% of base	(2,103,892)	2,190,563	4,939,245		
State network 2	(1,051,946)	(402,197.83)	3,564,904	4,939,245	4,939,245
State network 3		<u>\$ (2,103,892)</u>	<u>\$ 2,190,563</u>	<u>\$ 4,939,245</u>	<u>\$ 4,939,245</u>
State network 4		(1,051,946)	(402,198)	3,564,904	4,939,245
State network 5			(2,103,892)	2,190,563	4,939,245
Large School districts ave. 300,000 students					
no econ. of scale network	1	(788,959)	547,641	1,234,811	1,234,811
	2	(394,480)	(120,659)	891,225.94	1,234,811
	3		(788,959)	547,641	1,234,811
	4		(394,480)	(120,659)	891,226
	5			(788,959)	547,641
	6			(394,480)	(120,659)
Total	(5,785,702)	(725,443)	11,548,202	17,003,536	24,779,621

equipment leasing should provide cushion for negative cash flow.

\*compare at \$2,000 a month per school  
price quoted by Bellsouth for less service  
than proposed here.

**Education Network of Tennessee  
Projected Income Statement**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<i>Revenue</i>			
Fee income	<u>\$ 23,487,900</u>	<u>\$ 23,487,900</u>	<u>\$ 23,487,900</u>
Total revenue	23,487,900	23,487,900	23,487,900
<i>Expenses</i>			
Operating costs	9,375,333	9,375,333	9,375,333
Administration	2,068,500	2,068,500	2,068,500
Network upgrades	9,750,000	5,416,667	1,083,333
Amortization of network purchase	4,166,667	4,166,667	4,166,667
Depreciation	69,667	98,667	127,667
Interest expense	<u>886,661</u>	<u>570,014</u>	<u>227,265</u>
Total expenses	26,316,828	21,695,847	17,048,765
Net income before income taxes	(2,828,928)	1,792,053	6,439,135
Federal and state income taxes	<u>-</u>	<u>-</u>	<u>2,052,859</u>
Net income	<u>\$ (2,828,928)</u>	<u>\$ 1,792,053</u>	<u>\$ 4,386,276</u>

# **Education Network of Tennessee Operating Costs**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
T-1s	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Backbone	1,500,000	1,500,000	1,500,000
Network engineering	1,000,000	1,000,000	1,000,000
ISDN to each school	2,592,000	2,592,000	2,592,000
Help desk	1,200,000	1,200,000	1,200,000
Expanding band width	1,333,333	1,333,333	1,333,333
4 Bell net	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
 <i>Total Operating Costs</i>	 <u>\$ 9,375,333</u>	 <u>\$ 9,375,333</u>	 <u>\$ 9,375,333</u>

**Education Network of Tennessee  
Administration Costs**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Payroll and benefits	\$ 1,112,500	\$ 1,112,500	\$ 1,112,500
Consulting	240,000	240,000	240,000
Audit	36,000	36,000	36,000
Legal	120,000	120,000	120,000
Office Space	160,000	160,000	160,000
Furniture	40,000	5,000	5,000
In-office network	100,000	50,000	50,000
Portable computers	30,000	15,000	15,000
Demo machines	24,000	12,000	12,000
Phones	15,000	5,000	5,000
Phone bill	36,000	36,000	36,000
Internet	24,000	24,000	24,000
Travel	96,000	96,000	96,000
Public relations	120,000	120,000	120,000
Printing	40,000	40,000	40,000
Supplies	24,000	24,000	24,000
Web site	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
 <i>Total Administration</i>	 <u>\$ 2,277,500</u>	 <u>\$ 2,155,500</u>	 <u>\$ 2,155,500</u>

# **Education Network of Tennessee Depreciation**

## Purchases

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Furniture	\$ 40,000	\$ 5,000	\$ 5,000
In-office network	100,000	50,000	50,000
Portable computers	30,000	15,000	15,000
Demo machines	24,000	12,000	12,000
Phones	<u>15,000</u>	<u>5,000</u>	<u>5,000</u>
<i>Total PP&amp;E purchases</i>	<u>\$ 209,000</u>	<u>\$ 87,000</u>	<u>\$ 87,000</u>

## Depreciation

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Year 1 Purchases	\$ 69,667	\$ 69,667	\$ 69,667
Year 2 Purchases	-	29,000	29,000
Year 3 Purchases	<u>-</u>	<u>-</u>	<u>29,000</u>
<i>Depreciation expense</i>	<u>\$ 69,667</u>	<u>\$ 98,667</u>	<u>\$ 127,667</u>

## Education Network of Tennessee Network Upgrade

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Region and State Caching	\$ 750,000	\$ 416,667	\$ 83,333
County Caching	1,200,000	666,667	133,333
School Caching	4,500,000	2,500,000	500,000
Upgrade routers	3,000,000	1,666,667	333,333
Backbone routers	<u>300,000</u>	<u>166,667</u>	<u>33,333</u>
<i>Total Network Upgrade</i>	<u>\$ 9,750,000</u>	<u>\$ 5,416,667</u>	<u>\$ 1,083,333</u>

## Education Network of Tennessee Network Purchase

### Network Purchase

Education purchase	\$ 7,500,000
Backbone purchase or replacement cost	<u>5,000,000</u>
 <i>Total Network Purchase</i>	 <u>\$12,500,000</u>

### Amortization Schedule - Network Purchase

	<u>Principal</u>	8% <u>Interest</u>	<u>Total</u>
Payment - Upon purchase	\$ 931,995	\$ 250,000	\$ 1,181,995
Payment - 2nd quarter of year 1	950,635	231,360	1,181,995
Payment - 3rd quarter of year 1	969,648	212,347	1,181,995
Payment - 4th quarter of year 1	989,041	192,954	1,181,995
Payment - 1st quarter of year 2	1,008,821	173,174	1,181,995
Payment - 2nd quarter of year 2	1,028,998	152,997	1,181,995
Payment - 3rd quarter of year 2	1,049,578	132,417	1,181,995
Payment - 4th quarter of year 2	1,070,569	111,426	1,181,995
Payment - 1st quarter of year 3	1,091,981	90,014	1,181,995
Payment - 2nd quarter of year 3	1,113,820	68,175	1,181,995
Payment - 3rd quarter of year 3	1,136,096	45,899	1,181,995
Payment - 4th quarter of year 3	<u>1,158,818</u>	<u>23,177</u>	<u>1,181,995</u>
 <i>Total payments</i>	 <u>\$12,500,000</u>	 <u>\$ 1,683,940</u>	 <u>\$14,183,940</u>

**Education Network of Tennessee  
Staffing**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
CEO	\$ 120,000	\$ 120,000	\$ 120,000
Chief Technical Officer	150,000	150,000	150,000
CFO	80,000	80,000	80,000
Project Manager	100,000	100,000	100,000
Tech 1	50,000	50,000	50,000
Tech 2	40,000	40,000	40,000
Tech 3	30,000	30,000	30,000
Writer Content Developer	60,000	60,000	60,000
Writer Content Developer	40,000	40,000	40,000
Writer Content Developer	40,000	40,000	40,000
Marketing Manager	75,000	75,000	75,000
Contact Administrator	50,000	50,000	50,000
Admin 1	30,000	30,000	30,000
Admin 2	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
 Total payroll before benefits and bonuses	 890,000	 890,000	 890,000
Fringe benefits	222,500	222,500	222,500
Bonuses	<u>445,000</u>	<u>445,000</u>	<u>445,000</u>
 <i>Payroll and benefits</i>	 <u>\$ 1,112,500</u>	 <u>\$ 1,112,500</u>	 <u>\$ 1,112,500</u>

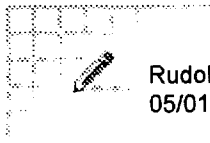


**Tennessee Model**  
**Statistics of Network Costs Incurred by**  
**TN Dept. of Education for Current Network**

Network value (funds spent to date)	12,500,000
Annual operating costs	5,500,000
Other specifications:	
Regional routers	6
County routers	95
Educational district routers	100
Schools and other connections	1,560
T-1s	105
Backbone:	
ISDN to each school	1,500
School routers	1,600
Computers connected	30,000
One BBn planet internet connection	
2 soon to be 4 Bell net	

**Note:** The above is an estimate of the size of the Tennessee network





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05/01/98 02:25 PM

To:  
cc:  
Subject: [Fwd: BellSouth Info]



henry.werchan@isis2000.com on 04/30/98 06:26:43 PM

To: Rudolph J. Geist/WAHL  
cc: jeff.hustad@isis2000.com, henry.werchan@isis2000.com  
Subject: [Fwd: BellSouth Info]

Received: from ns1.isis2000.com (ns1.isis2000.net [198.182.101.33]) by  
pantano.theriver.com (8.8.5/8.7.3) with SMTP id OAA06592 for  
<hwerchan@theriver.com>; Mon, 27 Apr 1998 14:45:40 -0700 (MST)  
From: Alan\_Hill@bbs.bellsouth.com Received: from hammer.isis2000.com by  
ns1.isis2000.com via smtpd (for pantano.theriver.com [205.216.137.2]) with SMTP; 27  
Apr 1998 21:44:26 UT Received: from gracie.isis2000.com ([198.182.101.9]) by  
hammer.isis2000.com (Netscape Messaging Server 3.01) with SMTP id AAA22783 for  
<henry.werchan@isis2000.com>; Mon, 27 Apr 1998 14:45:47 -0700 Received: from  
bbsfirewall.bbs.bellsouth.com ([198.79.18.2]) by gracie.isis2000.com via smtpd (for  
hammer.isis2000.com [198.182.101.68]) with SMTP; 27 Apr 1998 21:44:23 UT Received:  
(from mailrlay@localhost) by bbsfw.ga.bbs.bls.com (8.8.8/8.8.8) id RAA21252 for  
<henry.werchan@isis2000.com>; Mon, 27 Apr 1998 17:44:20 -0400 (EDT)  
X-Authentication-Warning: bbsfw.ga.bbs.bls.com: mailrlay set sender to  
<Alan\_Hill@bbs.bellsouth.com> using -f Received: from  
cengw100.ga.bbs.bls.com(90.4.12.143) by bbsfw.ga.bbs.bls.com via smap (V2.0) id  
xma021248; Mon, 27 Apr 98 17:44:02 -0400  
Received: by cengw100.ga.bbs.bls.com(Lotus SMTP MTA v1.1 (385.6 5-6-1997)) id  
852565F3.00781FAC ; Mon, 27 Apr 1998 17:52:04 -0400  
X-Lotus-FromDomain: BCI

To: henry.werchan@isis2000.com  
cc: Steve\_Gorman@bbs.bellsouth.com  
Message-ID: <852565F3.00770B45.00@cengw100.ga.bbs.bls.com>  
Date: Mon, 27 Apr 1998 17:43:49 -0400  
Subject: BellSouth Info  
Mime-Version: 1.0  
Content-type: text/plain; charset=US-ASCII

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The BBS Network Design Option is based on assumptions and variables  
provided by ISIS 2000.

The following overview describes the BellSouth Business Systems Network Design  
Option for the ISIS design for the State Department of Education ConnectEN network.

All of the BBS figures were based on location data and speed requirements for each school site and County Router Site in Tennessee (Not Including Sprint Intermountain LATA) provided by ISIS 2000 to the BBS Team.

The network services that BBS supplied costs for would be available within the cost parameters estimated below. If any of the assumptions change, including location and/or speed/bandwidth requirements, the BBS Network Design Option would change.

It should be noted that the actual location of the Point-to-Point Megalink sites must be finalized to determine the exact rates.

At present, they are priced with two local channels to serve each site without any Interoffice Mileage. When the design is finalized, additional mileage charges may be required.

When the final design is selected by ISIS for each site with speed and connectivity option selected, then a more accurate view of the actual costs can be determined.

#### BellSouth Network Design Option for ISIS

The BellSouth Network Design Option assumes a Frame Relay and Megalink DS1 Network in every LATA in Tennessee to allow aggregation of traffic before going to the Internet through BellSouth.net nodes in Knoxville, Nashville, and Memphis. Sprint Intermountain is providing a similar network for their LATA in upper East Tennessee. Sprint Long Distance will likely be used to bring traffic from Chattanooga and the Tri-Cities to Knoxville to connect to the Internet through BellSouth.net. None of the Sprint or Sprint Intermountain costs are included in the BBS Design Option.

The quantities of Frame Relay and DS1 Services used in the BBS Network Design Option are based on data provided by ISIS 2000.

BellSouth Services to be used in the network are:

- Frame Relay Services

- Qty. of 586 DS1 Broadband Exchange Lines and Broadband Exchange Line Extensions (BBEL and BBELE) with a variety of Customer Connection Speeds ( 1.536M, 512K, 256K, 128K ) connecting larger schools and County Hub Routers to the ISIS Managed Node in each of the three cities

- Megalink DS1 Services

- Qty. of 1,121 Megalink DS1 (1.544M) Circuits connecting Smaller schools to County Hubs in each County.

- BellSouth.net Services

- 9 Meg Connections to the BMF in Knoxville & Memphis and a 21 Meg Connection in Nashville all over DS3 Frame Relay. The DS3 Frame Relay will carry traffic from the schools to the ISIS Managed Node in each of the three cities as well as taking Internet traffic to BellSouth.net's Internet Service out to the wide area Internet when required.

- Estimated Annual Cost for Frame Relay is	\$2,676,348
586 sites	

- Estimated Annual Cost for Megalink DS1 is	\$2,828,928
1,121 sites	

- Estimated Annual Cost for DOTnet Services \$562,692\*  
3 Nodes

Total Projected Annual Cost \$6,067,968

\* The DOTnet Cost is made up of the following Sites:

Nashville	\$ 256,572
Memphis	\$ 153,060
Knoxville	\$ 153,060
Total	\$562,692

CERTIFICATE OF SERVICE

I, Rudolph J. Geist, hereby certify that copies of the foregoing Reply to Oppositions were served on this 1st day of May, 1998, via hand delivery, to the following individuals at the addresses listed below:

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\*By first-class mail, postage pre-paid